



## Memorandum 16 /2004

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission  
Five Middlesex Avenue, Third Floor, Somerville, MA 02145  
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | [www.mass.gov/perac](http://www.mass.gov/perac)  
Robert E. Tierney, *Chairman* | A. Joseph DeNucci, *Vice Chairman*  
C. Christopher Alberti | Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis  
Joseph E. Connarton, *Executive Director*

### M E M O R A N D U M

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Mutual Fund Allegations (Continued)

DATE: March 8, 2004

As you know, federal and state regulators have been continuing their investigation into inappropriate trading practices that occurred in mutual funds offered by some prominent money management firms. Last month, MFS Investment Management settled its case by paying a sizeable fine, lowering fund management fees, and suspending (and ultimately terminating) two of its senior executives. Among the other firms where investigations are ongoing or where charges have been filed are PIMCO, Janus, Federated Investors, Franklin Resources, FleetBoston (through its Columbia Management family of funds), and State Street Research and Management (the NASD levied a small fine for the firm not taking sufficient steps to stop market timing).

To date, Putnam is the only firm where some of the company's senior portfolio managers (who also managed institutional accounts in which some Chapter 32 systems were invested) were forced to leave the firm after having been accused of inappropriately trading in mutual funds that they managed. Accordingly, it is the only firm to have experienced significant terminations from institutional clients.

One certain result of the recent investigations is that, going forward, all investment management firms can be expected to strengthen their internal compliance and monitoring systems so as to make any future violations of this type highly improbable.

For those boards that are current clients of any of the affected firms, the most important factors to consider are whether the existing relationship has been satisfactory from both a performance and client service perspective and whether the portfolio management team remains intact. In terms of evaluating these firms' management and control systems and their codes of ethics, boards should request and receive the necessary explanations and assurances from these firms and should seek counsel on these matters from their investment consultant (if any). Boards with further questions are encouraged to contact Investment Director Robert Dennis, who previously worked in the mutual fund business. Mr. Dennis can be reached at 617-666-4446 extension 922.